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Southwestern Bell
Corporation

William A. Blase
Director-
Federal Regulatory

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December 16, 1992

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DEC 16 1992

Ms. Donna Searcy, Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC Docket No. 92-101, SFAS 106 Investigation

Dear Ms. Searcy:

On December 1, 1992, pursuant to RAO 20, SWBT notified the Commission of its adoption of SFAS 106 accounting for OPEBs effective January 1, 1993. The estimated exogenous amount in SWBT's Direct Case filed June 1, 1992 is changed because the previous estimate used a valuation based on a January 1, 1992 adoption of SFAS 106.

To provide the Commission with the latest information, SWBT, by this ex parte, updates the exogenous amount to reflect the January 1, 1993 effective date. Attachment 1 provides an update of page 17 of SWBT's Direct Case and Attachment 2 provides an update of Figure 2.4-1 of Exhibit 3 of SWBT's Direct Case, "Calculation of Exogenous Cost Adjustments Including Allocation to Baskets." The amount is subject to change because a new actuarial valuation of SFAS 106 costs will be performed in the first quarter of 1993 with a valuation date of January 1, 1993.

For SWBT, 88% to 90% of the SFAS 106 costs are associated with benefits earned in prior periods by our current employees and retirees.

Please call me if you would like to discuss any of these issues.

Sincerely,

William A. Blase Jr.

Attachments

cc: Greg Vogt
Mary Brown
Chris Frentrup
Michael Mandigo

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Postretirement Benefits Other Than Pensions
 Interstate Revenue Requirement Study
 Annual Incremental Impact of SFAS-106²⁶

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	(\$ Millions)			
	<u>1993²⁷</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
1. Total SFAS No. 106 Expense	94.0	97.0	100.0	102.0
2. Pay-As-You-Go Amounts ²⁸	35.0	38.0	41.0	44.0
3. Trust Contributions	0.0	0.0	0.0	0.0
4. Total Current Accounting	<u>35.0</u>	<u>38.0</u>	<u>41.0</u>	<u>44.0</u>
5. Incremental Expense	59.0	59.0	59.0	58.0
6. Incremental Rate Base Impact	<u>(3.0)</u>	<u>(10.0)</u>	<u>(17.0)</u>	<u>(23.0)</u>
7. Incremental Revenue Requirements	<u>56.0</u>	<u>49.0</u>	<u>42.0</u>	<u>35.0</u>

C. SWBT Has Allocated SFAS-106 Costs To The Appropriate Baskets.

The incremental OPEB costs were categorized into the appropriate Part 32 accounts based on existing rules and the interpretations of, or changes to, Part 32 rules contained in RAO Letter 20. Appropriate SFAS-106 amounts were allocated to nonregulated (per Part 64) and other categories (i.e., SNFA and affiliate transactions). The resultant subject-to-separations amounts were apportioned to state and interstate amounts using Part 36 rules. A portion of the SFAS-106 effect was allocated to services not included in the four price cap baskets based on the

²⁶These costs assume a 16-year amortization of the Transition Benefit Obligation. At this time, these estimates assume no prefunding of the OPEB obligation. As SWBT funds the OPEB obligation, the rate base drain shown on line 6 will be lessened, increasing the incremental revenue requirements shown on line 7.

²⁷1992 data is omitted because SWBT has determined a January 1, 1993 effective date for SFAS-106 adoption.

²⁸Expenses for life insurance benefits are not literally pay-as-you-go. They are accrued and funded on an actuarially determined basis. (See Section VI, I,2, infra.)

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FIGURE 2.4-1

EXOGENOUS COSTS ADJUSTED FOR NONPRICE CAP SERVICES
(000)

STATE: SOUTHWESTERN BELL TELEPHONE COMPANY

	TOTAL	CL	TS	SPECIAL	IX
1. EXOGENOUS IS ACCESS & IX W/NONPRICE CAP SERVICES FIGURE 2H-1.1 LN 82	48,086	22,787	16,087	7,598	1,614
2. DISTRIBUTION RATIO TO ADJUST NONPRICE CAP SERVICES LN 7		0.008865	0.000791	0.011187	0.001727
3. EXOGENOUS COSTS ASSOCIATED W/NONPRICE CAP SERVICES LN 1 * LN 2	303	202	13	85	3
4. EXOGENOUS WITHOUT NONPRICE CAP SERVICES LN 1 - LN 3	47,783	22,585	16,074	7,513	1,611
5. GODWIN ADJUSTMENT		0.848	0.848	0.848	0.848
6. EXOGENOUS WITH GODWIN ADJ LN 4 * LN 5	40,520	19,152	13,631	6,371	1,366

1991 REVENUES
(000)

	TOTAL	CL	TS	SPECIAL	IX
7. 1991 REVENUES W/NONPRICE CAP SERVICES FCC 492 LN 1 + LN 6	1,690,325	768,596	610,783	276,524	34,678
8. 1991 NONPRICE CAP SVCS REVENUE FCC 492 FOOTNOTE	10,451	6,814	483	3,094	60
9. DISTRIBUTION (LN8/LN7)		0.008865	0.000791	0.011187	0.001727